

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

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In the Matter of the Application of)  
MOLOKAI PUBLIC UTILITIES, INC. )  
For Review and Approval of Rate )  
Increases; Revised Rate Schedules. )  
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DIV. OF CONSUMER ADVOCACY  
DEPT. OF COMMERCE AND  
CONSUMER AFFAIRS  
STATE OF HAWAII  
DOCKET NO. 02-0371

DECISION AND ORDER NO. 20342

Filed July 18, 2003  
At 9:00 o'clock A.M.

Karen Higashi  
Chief Clerk of the Commission

ATTEST: A True Copy  
KAREN HIGASHI  
Chief Clerk, Public Utilities  
Commission, State of Hawaii.

K. Higashi

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)	
MOLOKAI PUBLIC UTILITIES, INC. )	Docket No. 02-0371
For Review and Approval of Rate )	
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DECISION AND ORDER

I.

On October 11, 2002, MOLOKAI PUBLIC UTILITIES, INC. ("MPUI"), filed an application requesting commission approval for a test year revenue increase of \$451,053, pursuant to Hawaii Revised Statutes ("HRS") § 269-16. Pursuant to Hawaii Administrative Rules ("HAR") § 6-61-92, MPUI also requests that the commission waive the HAR § 6-61-75 requirement that audited financial statements be submitted with its application.

MPUI served copies of its application on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate") (collectively with MPUI, "Parties"). Pursuant to HRS § 269-51 and HAR § 6-61-62, the Consumer Advocate is an *ex officio* party to this proceeding.

On October 25, 2002, the commission issued Protective Order No. 19731 setting forth the procedures for handling privileged and confidential information that may be requested and/or filed in the instant docket.

By Statement of Position Regarding Completeness of Application, filed on October 29, 2002, the Consumer Advocate did not object to the completeness of the application, pursuant to the requirements of HRS § 269-16(d).

On December 17, 2002, the commission held a public hearing on the application at the Mitchell Pauole Community Center in Kaunakakai, Molokai, Hawaii, pursuant to HRS §§ 269-12 and 269-16.

On December 18, 2002, West Molokai Citizens Committee ("West Molokai") filed a timely motion to intervene ("Motion to Intervene"), pursuant to HAR §§ 6-61-55 and 6-61-57. On December 26, 2002, MPUI filed a timely memorandum in opposition to West Molokai's Motion to Intervene. By Order No. 19955, filed on January 14, 2003, the commission denied West Molokai's Motion to Intervene, but granted it participant status without intervention subject to certain conditions,<sup>1</sup> pursuant to HAR § 6-61-56.<sup>2</sup>

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<sup>1</sup>Pursuant to Order No. 19955, West Molokai's participant status was limited to: (1) monitoring the proceedings in the subject docket; (2) receiving copies of testimony, information requests and responses, and other related documents filed in the proceedings in the instant docket, other than those documents deemed confidential and under protective order by the commission; and (3) filing a position statement on the issues established in this docket.

<sup>2</sup>On January 7, 2003, West Molokai filed a supplemental pleading in support of its Motion to Intervene. In Order No. 19955, the commission noted that the supplemental pleading was essentially a reply to MPUI's December 26, 2002 opposition memorandum, and that the commission's rules of practice and procedure did not allow for the filing of replies unless a party was granted leave by the commission to do so. The commission, nonetheless, determined that it would give said supplemental

On January 27, 2003, West Molokai filed a timely motion for reconsideration of Order No. 19955 ("Motion for Reconsideration"). On January 31, 2003, MPUI filed a timely memorandum in opposition to West Molokai's Motion for Reconsideration. By Order No. 20033, filed on February 20, 2003, the commission denied West Molokai's Motion for Reconsideration.

On February 12, 2003, the commission issued Stipulated Prehearing Order No. 20017 ("Stipulated Prehearing Order"), which established the issues and the procedural schedule in this docket. By Order No. 20034, filed on February 20, 2003, as amended by Order No. 20053, filed on March 3, 2003, ("Order No. 20053")<sup>3</sup> the commission approved, with the exception of the date for the evidentiary hearing, the Stipulated Prehearing Order.<sup>4</sup>

Pursuant to the Stipulated Prehearing Order, as amended by Order No. 20053, the parties submitted the following discovery: (1) on February 20, 2003, the Consumer Advocate filed its submission of information requests ("IR"s) to MPUI; (2) MPUI

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pleading the "appropriate weight" in its consideration of West Molokai's motion to intervene.

<sup>3</sup>Order No. 20053, filed on March 3, 2003, amended Order No. 20034 by specifically identifying the Stipulated Prehearing Order, where it was not identified in Order No. 20034, and including it as an exhibit to Order No. 20053.

<sup>4</sup>Order No. 20053 specified that if no settlement was reached by the parties, an evidentiary hearing date would be set by the commission, said date to be no earlier than August 1, 2003, the date set by the Parties in the Stipulated Prehearing Order. It also approved the waiver by the Parties of the nine-month deadline for the issuance of a final decision, pursuant to HRS § 269-16(d). Prior to the Parties' waiver of the nine-month deadline, a final decision by the commission was due to be issued on July 11, 2003.

filed its responses to the Consumer Advocate's IRs on March 12, 2003; (3) on March 27, 2003, the Consumer Advocate filed its submission of supplemental IRs to MPUI; and (4) MPUI filed responses to the supplemental IRs on April 10, 2003.

On May 5, 2003, the Consumer Advocate filed its Direct Testimony, Exhibits and Workpapers setting forth its position relating to the issue of rate relief for MPUI presented in the instant docket.

On May 15 and 19, 2003, the parties held settlement discussions to discuss their differences regarding the amount of rate relief to which MPUI should be entitled. On May 23, 2003, the Parties filed their Stipulation of Settlement Agreement in Lieu of Evidentiary Hearing ("Stipulation").

By Order No. 20223, filed on June 2, 2003, the commission amended the procedural schedule to allow West Molokai to file a position statement ("SOP") by June 16, 2003. On June 16, 2003, West Molokai filed its SOP with the commission. By letters dated June 20, 2003, MPUI and the Consumer Advocate requested leave to respond to West Molokai's SOP. By Order No. 20294, filed on July 2, 2003, MPUI and the Consumer Advocate were given until July 10, 2003 in which to submit responses to the SOP. On July 8, 2003, the Consumer Advocate and MPUI submitted responses to West Molokai's SOP.<sup>5</sup>

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<sup>5</sup>In its SOP, West Molokai argues, among other things, that: (1) MPUI's application fails to meet "the fundamental regulatory prerequisite to the filing of a rate application"; (2) MPUI's need to raise rates is driven by its waste of more than half of the water it pumps; (3) MPUI's request for a rate increase is unsupported; (4) MPUI does not have a sound business plan to

II.

STIPULATED ISSUES

The test year used in this rate proceeding is January 1, 2003 to December 31, 2003 ("Test Year").<sup>6</sup> As set forth in the Stipulated Prehearing Order, the stipulated issues are as follows:

1. Is MPUI's proposed rate increase reasonable?
  - a. Are the proposed tariffs, rates and charges just and reasonable?
  - b. Are the revenue forecasts for the Test Year ending December 31, 2003 at present rates and proposed rates reasonable?
  - c. Are the projected operating expenses for the Test Year reasonable?

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support its proposed new plant; and (5) an evidentiary hearing is required.

Upon review and consideration of all of West Molokai's contentions, and the Consumer Advocate's and MPUI's responses to such, we conclude that West Molokai's contentions have no merit. In particular, West Molokai's use of HRS § 269-16(b) in its SOP to support (5), above, is especially troublesome in that it creates the impression that the parties are in obvious contravention of a statutory mandate. As discussed below, contrary to West Molokai's assertion, in their utilization of HAR § 6-61-35 and HRS § 91-9, the Parties have availed themselves of a legal statutory and procedural waiver available to all applicants before the commission for a rate increase. There is nothing improper about the Parties' agreement to waive the evidentiary hearing.

<sup>6</sup>See, HAR § 6-61-88.

- d. Is the projected rate base for the Test Year reasonable, and are the properties included in the rate base used or useful for public utility purposes?

III.

MPUI

MPUI is a public utility authorized to provide residential water service on the west end of the island of Molokai, pursuant to Decision and Order No. 6834, filed on October 29, 1981, in Docket No. 4112. It is a Hawaii corporation, formed to provide residential water service to hotels, a golf course, other commercial establishments, residential condominiums, and single-family homes. MPUI currently has 368 customers consisting of 115 metered customers and 253 unoccupied lots that are billed a monthly water availability charge.

Pursuant to Decision and Order No. 9695, filed on March 11, 1988, in Docket No. 5471, wherein MPUI filed a request for a temporary and permanent general rate increase, the commission approved MPUI's current rate design as follows:

Deposit prior to commencement of service	\$25.00
Water consumption charge per month per 1000 gallons	1.94

Standby charge per month  
(per installed meter):

5/8" or 3/4"	7.50
1"	10.00
1-1/2"	15.00
2"	25.00
3"	50.00
4"	75.00
6"	150.00
8" and over	250.00

Private fire protection rates per month:

Per Hydrant	3.50
Per Standpipe	2.00
Others: Per inch diameter of feed main	2.50

Monthly water availability charge to each owner of each lot at which a service connection is possible but has not been applied for 2.00

Contribution for tap-in  
(meter size/inches):

5/8" or 3/4"	100.00
1"	200.00
1-1/2"	350.00
2"	500.00
3"	1,000.00
4"	2,000.00
6"	3,000.00
8" and over	4,500.00

Reconnection fee 50.00

Inspection fee where user installs the tap-in and meter actual cost but not less than \$25.00



As stated above, MPUI seeks commission approval for a test year revenue increase of \$451,053, which MPUI believes will allow it to reach approximate break-even (excluding any return on rate base or depreciation expense on existing plant).

MPUI proposes to achieve its rate increase in three ways. First, it proposes to increase the basic monthly standby service charge for existing customers by 100 per cent for each meter size. Second, it proposes to increase the monthly availability charge 100 per cent, from \$2.00 to \$4.00 per month, and third, to increase the consumption charge from \$1.94 per thousand gallons per month to a charge of \$3.1826 per thousand gallons for the base level of usage per customer classification, and a conservation rate of \$6.3652 per thousand gallons for each thousand gallons used above the base level for a particular customer classification. MPUI represents that since at least 1999, it has been losing between \$300,000 and \$400,000 per year, and that its proposed rate increase is designed to allow it to achieve an approximate operational break-even position. MPUI asserts that its current rates do not now, and will not in the foreseeable future, produce sufficient revenues to eliminate its significant operating losses. The rate relief requested in the application is intended as an interim measure to bring MPUI to operational break-even, but does not address or include any proposed overall rate of return in determining test year revenues; MPUI will address its rate base and seek an overall rate of return in its intended 2004 rate filing (test year ending June 30, 2005).

IV.

STIPULATION IN LIEU OF EVIDENTIARY HEARING

At the outset, we view the Stipulation as an attempt by the parties to resolve all issues in this docket without holding an evidentiary hearing, pursuant to HAR § 6-61-35. HAR § 6-61-35 provides that "[w]ith the approval of the commission, any procedure in a contested case may be modified or waived by stipulation of the parties and informal disposition may be made of any contested case by stipulation, agreed settlement, consent order, or default." See also, HRS § 91-9. We also recognize the Stipulation to be comprised of proposed agreements of the parties, which constitute a formal confirmation by them of a resolution of all issues in this docket.<sup>7</sup> Specifically, the Stipulation states, in relevant part, that:

The Parties agree that the provisions of this Stipulation are binding as between them with respect to the specific issues and matters to be resolved in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent compromises by the Parties to fully and finally resolve all issues in the subject docket and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Furthermore, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of

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<sup>7</sup>We will treat the Stipulation as also a request by the Parties, pursuant to HAR § 6-61-35, to waive the evidentiary hearing. See also, HRS § 91-9. We will approve the Parties' agreement to modify the contested case procedures, in this instance.

precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation.

The Stipulation also states that "each provision of [the Stipulation] is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the [c]ommission of the matters expressed in [the Stipulation] in their entirety."

In considering the Stipulation, the commission has the independent obligation, after reviewing such Stipulation, to determine if its provisions are reasonable and in the public interest. While we strive to respect the basic underlying agreements and conditions made by the parties as expressed in the Stipulation, we must, given our statutory responsibilities, undertake an independent review to, among other things, ensure that the interests of the public (particularly MPUI's customers affected by the rate increase) are protected.

Upon our review, we find the proposed agreements and conditions set forth in the Parties' Stipulation to be reasonable and in the public interest. We also find that our approval of the Stipulation in its entirety will assist in expediting and facilitating the ratemaking process. Accordingly, subject to certain conditions and clarifications, discussed herein, we conclude that the proposed agreements and conditions set forth in the Parties' Stipulation should be approved in its entirety and made a part of this decision and order.

The Parties should be advised, however, that commission review and approval of the Stipulation is based primarily on the Parties' representation that there are no remaining differences in this proceeding and that the Parties desire to resolve and dispose of the entire case by means of the Stipulation. Accordingly, our approval of the Stipulation in its entirety shall not be used or cited by any party or person as precedent in any other proceeding before the commission or before any court of law for any purpose, except in furtherance of the purposes and results of the Stipulation. As discussed below, we will from time to time state in this decision and order that the stipulated estimates are either reasonable or acceptable. Such statements shall not be read or construed as necessarily approving the methodology by which the stipulated estimates were derived, and the commission will, therefore, not be bound by the stipulated estimates in future rate cases.

## V.

### STIPULATED REVENUES

As a result of the Stipulation, the parties agreed to allow MPUI to recover its expenses, under the settlement terms, while allowing no operating income. MPUI originally sought a test year revenue amount of \$862,947, later reduced to \$817,393. The Consumer Advocate proposed a test year revenue amount of \$649,491. The Parties settled on a test year revenue amount of \$683,096. This amounts to a revenue increase of \$280,622. MPUI is not seeking any rate of return on its rate base, and as such,

the revenue increase does not contain any rate of return or related income tax expense components.

Based upon our review, we find the stipulated revenues of \$683,096 to be reasonable for the Test Year.

## VI.

### STIPULATED RATE DESIGN

Once the stipulated revenue requirement of \$683,096 was attained, the Parties worked to settle on a rate design to achieve said revenue requirement. MPUI accepted the Consumer Advocate's estimates for customer consumption, which were the same as, or similar to MPUI's through March 2003. In addition, MPUI revised its threshold for the imposition of a conservation rate on residential customers, from 1,000 gallons per day, to 5,000 gallons per day. The Consumer Advocate accepted this revised conservation rate. The stipulated rate design results in an increase in the base rate for residential customers of 63.9 per cent with the remaining portion of the increased revenues provided from the conservation rate and usage in excess of 5,000 gallons per day.

Upon a review of MPUI's proposed rate schedule, attached to the Parties' Stipulation as Exhibit G, we find certain aspects of such rate schedule may present some confusion to consumers, and thus warrant clarification and revisions. For instance, the word "Plus" between the water consumption charge per 1,000 gallons and the conservation charge per month should be deleted. The term could lead customers to believe that there is

a **total** conservation charge of \$7.88 per 1,000 gallons for water use above a customer base level, as opposed to an additional \$4.70 per 1,000 gallons over the base level use. Additionally, MPUI's proposed rate schedule should include the Bulk Water Sales rate (noted in Exhibit A to the Stipulation as the Kualapuu Bulk Sales Contract). Since this rate is being assessed to MPUI's customers, it should be included in the proposed rate schedule to enable customer review. In all other respects, we find this stipulated rate design, set forth in MPUI's proposed rate schedule (Exhibit G of the Parties' Stipulation), to be reasonable.

## VII.

### STIPULATED OPERATING EXPENSES

The Parties agreed to the following negotiated operating expense items:<sup>8</sup>

#### Salaries and Wages

MPUI proposed an expense amount for salaries and wages of \$81,525, later reduced to \$68,815. The Consumer Advocate proposed the amount of \$34,676. The parties agreed on a salaries

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<sup>8</sup>The negotiated operating expense items between the Parties involved salaries and wages, employee payroll taxes and benefits, utility costs for pumping, fuel and oil costs for pumping, legal, professional and regulatory expenses, allocated finance and administrative expenses, and uncollectible expenses. The remaining operating expense items were either accepted by the Consumer Advocate, e.g., pipeline rental expenses, or were accepted by MPUI in response to recommended adjustments of the Consumer Advocate, e.g., purchased water expenses, repairs and maintenance expenses, chemicals and testing expenses, and administrative and general expenses.

and wages amount of \$54,252.<sup>9</sup> Included in this amount was \$7,200 reflecting a fixed monthly charge of \$600 from a consultant who performs specialized work for MPUI and other affiliates. Upon review, we find the stipulated salaries and wages amount to be reasonable.

#### Employee Taxes and Benefits

MPUI proposed an expense amount for employee taxes and benefits of \$17,856, later reduced to \$14,324. The Consumer Advocate proposed the amount of \$7,218. The Parties agreed to use a ratio of benefits to payroll of 0.2082 of the base salaries and wages amount, i.e., \$47,052, to arrive at an employee taxes and benefits amount of \$9,796. We find the Parties' methodology to be reasonable, and also find the Test Year employee taxes and benefits expense to be appropriate.

#### Utility Costs for Pumping

MPUI proposed an expense amount for utility costs for pumping of \$116,638, which MPUI later reduced to \$114,052. The Consumer Advocate proposed an amount for pumping costs of \$65,944. The main difference between the Parties' proposed amounts involved the use of a limitation of unaccounted for water loss ratio of 10 per cent by the Consumer Advocate in its calculations, and no such limitation used by MPUI.

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<sup>9</sup>The parties agreed to use the eight-month period from September 2002 to April 2003 in determining the salaries and wages for the test year. Prior to September 2002, Island Utilities Service ("IUS") performed many operating functions for MPUI. IUS ceased its services to MPUI on August 31, 2002. MPUI's salaries and wages charges from January through August 2002 were low because IUS assumed these expenses.

In light of the steps taken by MPUI to correct the water loss problem (e.g., construction of new transmission facilities to upgrade the aging pipe system it inherited when it purchased the company), the expense to MPUI of making short term corrections to rectify the problem of water loss, and MPUI's representations that it was taking steps to correct the water loss problem, the Parties settled on a 15 per cent unaccounted for water loss ratio limitation.<sup>10</sup> The Parties thus settled upon an amount of \$69,824 for utility costs pumping. We find the stipulated amount for utility costs for pumping to be reasonable.

#### Fuel and Oil Costs for Pumping

MPUI proposed an expense amount for fuel and oil for pumping water of \$167,082, later increased to \$216,830. The Consumer Advocate proposed \$139,056 for fuel and oil pumping costs. Taking as a starting point the agreed-upon 15 per cent unaccounted for water loss ratio limitation, the Parties settled on an expense amount for fuel and oil for pumping of \$146,350. We find this stipulated amount for fuel and oil costs for pumping to be acceptable.

#### Legal and Professional and Regulatory Expenses

An expense amount of \$82,000 for legal professional and regulatory expenses was proposed by MPUI. The Consumer Advocate proposed an amount of \$59,420. Based on an early settlement of the issues in this docket, the Parties agreed that there would be

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<sup>10</sup>In light of, among other things, the existing water loss problem, the commission will require that MPUI provide quarterly reports on the status of the upgrade of its facilities, scheduled to begin in July 2003, including information on the progress of the construction of its new transmission facilities intended to reduce the amount of water loss.



anticipated savings in these expenses of approximately \$27,500. Amortized over three years, the annual rate case expense amounts to \$36,138, which, when combined with the agreed-upon amount of \$15,000 for pending legal matters, the Test Year expense agreed upon by the Parties totaled \$51,138. Upon review, we find this stipulated amount for the test year to be reasonable.

#### Allocated Finance and Administrative Expenses

An expense amount for allocated finance and administrative expenses of \$18,000 was proposed by MPUI, which was later reduced to \$9,600. Because MPUI did not support its projection of \$9,600, the Consumer Advocate proposed an amount of \$3,500, based on MPUI's recorded 2002 allocated administrative expense of \$3,200. MPUI explained that it utilized a monthly charge of \$800, annualized for the test year as \$9,600, because it is currently being charged that amount for services by groups associated with Molokai Ranch. The Consumer Advocate agreed to this Test Year expense of \$9,600. We agree, and find that the stipulated allocated finance and administrative expenses are reasonable.

#### Uncollectible Expenses

In its application, MPUI proposed an uncollectible expenses amount of \$8,630, later revised to \$8,174. These amounts were based on utilizing one per cent of the total revenues allowed. The Consumer Advocate cited concerns that MPUI has not offered any recorded evidence to support the proposed one per cent factor. However the Consumer Advocate has determined not to pursue this issue in the instant proceeding, but will

re-examine it in MPUI's next rate proceeding, after data regarding this matter have been collected. Based upon the agreed upon percentage of one per cent, and the test year revenue amount of \$683,096, the parties agreed to a stipulated uncollectible expense amount of \$6,830. We find the stipulated uncollectible expense amount to be reasonable, and we will also revisit the issue of the uncollectible factor at MPUI's next rate case.

#### VIII.

##### DEPRECIATION

MPUI did not include a request for rate base, and thus did not include any request for recovery of depreciation expense. With the approval of the commission, MPUI will write off the net utility plant-in-service at December 31, 2001, so that there will be no depreciable plant prior to December 31, 2001 for future regulatory recovery. The Consumer Advocate agrees with this handling of the depreciation issue. We find the Parties' action with respect to depreciation in the instant case to be reasonable.

#### IX.

##### OTHER ITEMS

##### Taxes Other Than Income Tax

The Parties have agreed to an amount of \$43,180 in taxes other than income tax expense for the Test Year. We find this stipulated amount to be reasonable.

X.

RATE BASE

The summary average rate base, attached as Exhibit 8 to MPUI's application, reflected the average Test Year balance of \$13,307. The Consumer Advocate recommends that the remaining balance of \$13,137 for net plant-in-service at the end of December 31, 2003, should be written off under "Depreciation" in order to minimize the work that may be required to validate MPUI's rate case in its anticipated rate proceeding in 2004. The Parties agree that the average rate base for the 2003 Test Year should be zero, thus, upon approval from the commission, MPUI will make the necessary accounting adjustments to reflect a Test Year rate base of zero. We find the Parties' stipulated treatment of the rate base to be reasonable and will require that MPUI submit documentation to the commission to the effect that it has transferred the balance of \$13,307 from net plant-in-service to "Depreciation" so that its Test Year rate base is zero.

XI.

RATE OF RETURN

As noted above, MPUI is not seeking a rate of return on its rate base. The Parties agree that this shall not set a precedent against MPUI seeking a return on its rate base in future regulatory proceedings.

XII.

EFFECTIVE DATE OF RATES

The Parties request that the stipulated rates be effective for any service rendered on and/or after the date the commission issues an order approving the rate increase sought in the instant docket. We will approve this request, as it is consistent with ordering paragraph 7, below. Accordingly, MPUI's rate increase shall take effect upon the commission's review and approval of MPUI's filing of its revised tariff sheets and rate schedules.

XIII.

SUMMARY OF FINDINGS AND CONCLUSIONS

Upon our review of the stipulated rate components discussed above, the commission finds and concludes that the Parties' Stipulation achieves a resolution of all outstanding issues in this proceeding. The Stipulation considers the different views of MPUI and all consumers of its water, and achieves a balance between the needs of MPUI to operate its business successfully, and the interests and views of its consumers, who have an interest in obtaining sufficient amounts of water for their varied uses at reasonable prices. As such, the commission concludes that the Stipulation, except as further clarified by this decision and order, should be adopted in its entirety. Specifically, we find and conclude the following:

1. The stipulated proposed tariffs, rates, and charges are just and reasonable.

2. The use of an average Test Year, as stipulated to by the Parties, is reasonable.

3. The stipulated operating revenues, operating expenses, and operating income for the Test Year, as set forth in Exhibit A to the Stipulation, and attached to this decision and order as Exhibit 1, are reasonable.

4. Based on the Parties' Stipulation, MPUI is entitled to a revenue increase of \$280,622. This stipulated revenue increase is reasonable.

#### XIV.

##### HAR § 6-61-92 WAIVER

Lastly, we address MPUI's request, pursuant to HAR § 6-61-92, to waive the HAR § 6-61-75 requirement that audited financial statements be submitted with MPUI's application.<sup>11</sup> HAR § 6-61-92 provides that the commission may waive financial requirements where the commission finds that insistence upon the requirement would cause a financial hardship on an applicant or be unjust or unreasonable. Upon a review of MPUI's application and its financial statements, the commission finds that to require MPUI to submit audited financial statements in this instance would unfairly cause financial hardship upon MPUI, and would thus be unreasonable. Accordingly, we conclude that MPUI's request to waive the HAR § 6-61-75 requirement to submit

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<sup>11</sup>HAR § 6-61-86 states in relevant part that a public utility requesting any rate change shall file a financial statement pursuant to HAR § 6-61-75.

audited financial statements with its application should be granted.

XV.

THE COMMISSION ORDERS:

1. The Parties' Stipulation, filed on May 23, 2003, is approved in its entirety and incorporated as part of this decision and order, subject to certain conditions and clarifications.

2. The Parties' Stipulation to waive the evidentiary hearing is approved.

3. MPUI may increase its rates to produce a total annual revenue increase of \$280,622.

4. The HAR § 6-61-75 requirement that financial statements be submitted with the application is waived, pursuant to HAR § 6-61-92.

5. MPUI shall provide evidence to the commission that it has transferred the remaining \$13,307 from its net plant-in-service to the "Depreciation" category, as set forth in the Parties' Stipulation, within 30 days from the date of this decision and order.

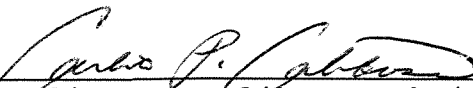
6. MPUI shall provide quarterly reports to the commission and the Consumer Advocate, beginning three months from the issuance of this decision and order, on the status of the upgrade of its facilities, scheduled to begin in July 2003, including information on the progress of the construction of the new transmission facilities, and any other steps implemented by

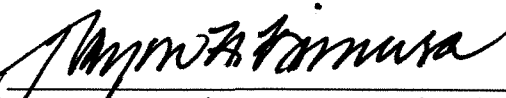
MPUI to reduce the amount of water loss and further upgrade its water system.

7. MPUI shall file with the commission revised tariff sheets and rate schedules consistent with the clarifications noted in Section VI of this decision and order, and reflecting the increases in rates and charges to its schedules and rules and regulations authorized by this decision and order. The revised tariff sheets and rate schedules shall be served on the Consumer Advocate and filed with the commission within 10 days of the issuance of this decision and order. The rate increase shall take effect upon the commission's review and approval of this filing.

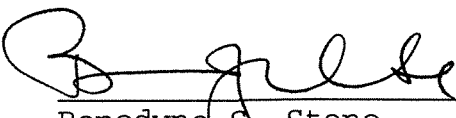
DONE at Honolulu, Hawaii this 18th day of July, 2003.

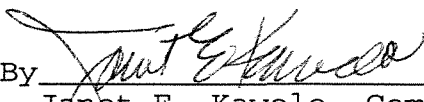
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By   
Wayne H. Kimura, Commissioner

APPROVED AS TO FORM:

  
Benedyne S. Stone  
Commission Counsel

By   
Janet E. Kawelo, Commissioner

02-0371.cs

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 20342 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
DIVISION OF CONSUMER ADVOCACY  
P. O. Box 541  
Honolulu, HI 96809

HAROLD EDWARDS  
SENIOR VICE PRESIDENT  
MOLOKAI PUBLIC UTILITIES, INC.  
745 Fort Street Mall, Suite 600  
Honolulu, HI 96813

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